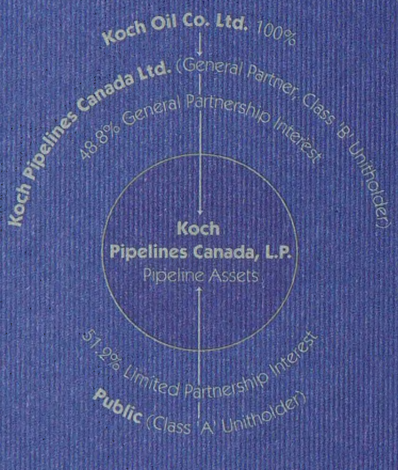
managing solid assets for the present and into the future

1998 Report to Unitholders

KOCH
PIPELINES CANADA, L.P.

partnership profile



Koch Pipelines Canada, L.P. ("the Partnership") is a publicly traded Limited Partnership, which owns and operates four Canadian pipeline assets: the Bow River Pipeline System, the Koch Alberta Pipeline System, and the Koch Valley Pipeline System in Alberta and the Mid-Saskatchewan Pipeline System in Saskatchewan. These pipeline assets gather crude oil from producer-owned production treating facilities (commonly known as batteries), truck terminals and other interconnecting gathering pipelines for delivery to regional refineries or major export pipelines. Combined, the systems comprise one of the largest crude oil feeder pipeline systems in Canada, totalling approximately 2,500 miles in length. In 1998, the pipelines had an average throughput of 282,900 barrels per day of crude oil and condensate.

The General Partner of Koch Pipelines Canada, L.P. is Koch Pipelines Canada Ltd. ("the General Partner"), a wholly-owned subsidiary of Koch Oil Co. Ltd. ("Koch Oil"). As a member of the Koch Petroleum Group of companies, Koch Oil is an indirect, wholly-owned subsidiary of Koch Industries, Inc. ("Koch") of Wichita, Kansas.

- Limited Partner Class A units issued: 37,500,000
  Trade on TSE under the symbol KPC.UN
- General Partner Class B units issued: 35,700,000

Koch Oil and its Canadian affiliates ("Koch Canada") have over 200 employees in Alberta, Saskatchewan and Ontario. Koch Canada's activities include crude oil exploration and production, oil and gas trading, capital services and crude oil trucking. Koch Canada has also grown to become one of the largest purchasers, shippers and exporters of Canadian crude oil.

abbreviations

bbl .... barrel(s)
bbl/d .... barrel(s) per day
Mbbl/d .... thousand barrels per day
MMbbl .... million barrels
WTI .... West Texas Intermediate

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achievements

- **Paid cash distributions of $0.77 per unit representing 69% of revenues earned**
- **Distributed $0.28 per unit as Partnership income, with unitholders receiving $0.49 per unit as a tax-deferred return of capital**
- **Received $150 million on November 27, 1998 as final payment for units purchased on an instalment receipt basis**
- **Received an Occupational Health and Safety Award of the Year from the Alberta Oil & Gas Pipeline Operators Safety Council**
- **Completed $13.8 million in capital projects including:**
  - a 20,600-barrel per day throughput capability increase from expansion of the Bow River Pipeline System
  - pipeline service connections to three new production batteries
  - new condensate trim blending and volume balance systems on the Mid-Saskatchewan Pipeline System
  - construction of an 80,000-barrel storage tank at Kerrobert, Saskatchewan

highlights

Financial

($ thousands except per unit amounts)	**1998**	1997[1]
Revenue	**$ 81,628**	$ 8,437
Operating expenses	**(21,829)**	(1,989)
General and administrative expenses	**(3,788)**	(501)
Management fee	**(1,138)**	(120)
Income from operations	**55,017**	5,947
Capital expenditures incurred	**(13,786)**	(4,795)
Capital and pipeline inspection expenditures prepaid by the Partnership	**13,316**	4,766
Distributable cash from operations	**56,364**	5,124
Distributable cash per Class A and B unit	**$ 0.77**	$ 0.07

[1] *November 27, 1997 to December 31, 1997*

Operational

Average daily throughput *(Mbbl/d)*	**1998**	1997[1]	1997[2]
Bow River Pipeline System	**182.6**	201.8	192.6
Koch Alberta Pipeline System	**50.1**	67.5	63.5
Mid-Saskatchewan Pipeline System	**43.8**	48.5	43.1
Koch Valley Pipeline System	**6.4**	7.8	7.2
Total	**282.9**	325.6	306.4

[1] *November 27, 1997 to December 31, 1997*
[2] *Full year 1997 throughput volumes for comparative purposes only*

From left to right: *Randolph C. Aldridge, David W. Fesyk, Keith F. Miller*

I AM PLEASED TO PRESENT THE 1998 FINANCIAL AND OPERATING RESULTS OF KOCH PIPELINES CANADA, L.P.

In its first full year of operations, the Partnership faced a rapidly changing industry environment and periods of extreme volatility within public capital markets. This landscape presented many new challenges for Koch Pipelines Canada. It did not, however, prevent us from accomplishing our objectives in several key areas. The harsh business climate we experienced in 1998 also intensified our focus on cost management, caused a shift in our commercial development activities, and in some regards, enhanced our prospects for providing unitholders with attractive long-term returns.

Without question, the drastic slide in world oil prices during 1998 caused an abrupt change within the western Canadian oil industry. In 1998 we saw a 50% decline in oil well completions in Alberta and Saskatchewan compared to activity levels recorded in 1997. As world oil prices periodically approached 10-year lows, western Canadian producers reacted by reducing or

message to the unitholder

curtailing oil development programs. Many producers experienced sharp production declines due to the combined effects of low wellhead prices and constraints on the availability of capital for well maintenance and new drilling.

FOCUSING ON THE RIGHT THINGS

Sustained low oil prices had several impacts on the operations of the Partnership. Our average throughput volumes declined from 306,400 barrels per day in 1997 to 282,900 barrels per day in 1998. Several production projects, including major new development programs in the Bow River and Mid-Saskatchewan service areas, were also delayed in response to low oil prices. Despite these impacts, Koch Pipelines Canada made cash distributions of $56.4 million, or $0.77 per unit.

So how did the Partnership react to its changing environment? In short, we worked hard at becoming more efficient and profitable in those aspects of our business that we can directly control. For example, we implemented several revenue enhancement and cost management initiatives in our operations. These efforts resulted in:

- **a 20% reduction in our combined operating, general and administrative costs**
- **continuation of the low-volume battery site disconnect program, designed to optimize the profitability of local gathering operations**
- **the successful renegotiation of term shipping agreements on the Koch Valley Pipeline System, covering 95% of volume receipts**
- **the implementation of a low-volume toll surcharge program across all systems**

On the commercial development front, Koch Pipelines Canada had a very active year. We completed a major mainline capacity expansion project on the Bow River Pipeline System, three new battery connections, four battery shipping capacity upgrade projects and the construction of a new 80,000-barrel crude oil storage tank at Kerrobert, Saskatchewan. The projects will strengthen the Partnership's revenue base and competitive position, while providing greater operational flexibility and the capacity required to accommodate future volume growth.

Total capital expenditures amounted to $13.8 million in 1998, $12.3 million of which related to specific projects that were funded by Koch

Canada on the closing of the Initial Public Offering ("IPO"). All revenue and operational benefits associated with the prepaid capital projects will accrue to the Partnership, and depreciation expense will flow through to unitholders in the form of tax-deferred return of capital.

Within our operations, we made strong progress in the areas of environmental management, safety, and pipeline integrity. In 1998 we further advanced our Environmental Excellence Program, including completion of comprehensive site assessment and environmental reviews. We also successfully implemented a new Supervisory Control and Data Acquisition System ("SCADA") on the Bow River Pipeline System. The Vector SCADA System has enhanced our ability to remotely monitor and control pipeline product movements while providing a state-of-the-art platform for supplemental line balancing and hydraulic optimization functions.

Throughout the year, the Partnership continued to focus on safety in all of our operations. In June, the Alberta Oil and Gas Pipeline Operators Safety Council presented the Partnership with an *Occupational Health and Safety Award of the Year* in recognition of having achieved zero lost time injuries in 1997 - a performance benchmark we proudly repeated in 1998.

CONFRONTING CAPITAL MARKET CHALLENGES

1998 proved to be a turbulent year in Canada's capital markets. As oil prices fell and it became apparent that a quick recovery was not on the horizon, investor support for energy-related securities waned. Additionally, the income fund and limited partnership classes of Canadian securities experienced relatively high volatility as the market adjusted prices to reflect expected stability and sustainability of cash distributions paid to investors. The trading price of the Partnership's units was clearly influenced by these general market trends during 1998.

November 27, 1998 marked our one-year anniversary as a publicly traded Partnership, and the final payment date for units purchased on an instalment receipt basis. As anticipated, these obligations were paid by investors and the Partnership's units now trade on The Toronto Stock Exchange under the symbol of KPC.UN.

The Partnership is taking proactive steps to improve the market liquidity of its units. For example, we are endeavoring to effect change to Revenue Canada's current policy that treats publicly traded, limited partnership units as foreign content for registered retirement savings plan purposes.

Management at Koch Pipelines Canada is committed to providing unitholders with attractive long-term returns on their investments. In many ways, the strengths of the Partnership have been overshadowed in the current market environment. These strengths include:

- **a strong base of competitively positioned pipeline assets**
- **a market-based toll design that affords the opportunity to strengthen profit margins when oil prices and industry drilling activity recover**
- **a strong, unleveraged balance sheet**
- **the status as a low-cost, efficient and reliable transportation service provider**
- **a broad service area with untapped reserve development potential**
- **a highly diversified base of producer and shipper customers**
- **a highly tax-efficient structure that resulted in only 36% of 1998 cash distributions being taxable in the hands of unitholders**

It is our intention to emphasize these strengths through our investor relations program in the coming year.

THE ROAD AHEAD

Pending a sustained recovery in world oil prices during 1999, we do not expect to see a significant increase in drilling activity in the areas served by the Partnership's pipelines. Accordingly, throughput volumes and revenues will remain susceptible to natural production declines. In 1999, Koch Pipelines Canada will pursue a series of initiatives designed to stabilize cash distributions paid to unitholders, while ensuring the long-term integrity and compliance of our operations. These initiatives include:

- **a comprehensive power optimization program to identify and capture additional cost savings**
- **implementation of the Vector SCADA System on the Mid-Saskatchewan, Koch Alberta and Koch Valley Pipeline Systems**
- **a storage tank upgrade program to maintain compliance with regulatory guidelines**
- **further rationalization of unprofitable and marginally profitable sites and laterals, including the sale of non-critical equipment and inventory**
- **the completion of three crude oil gathering projects on the Mid-Saskatchewan Pipeline System**

While new battery connection activity along our existing pipeline corridors is expected to be lower than in previous years, Koch Pipelines Canada will attempt to grow through acquisitions and grassroots projects in other parts of the Western Canadian Sedimentary Basin.

ACKNOWLEDGEMENTS TO OUR TEAM

In closing, I would like to express my appreciation to our Board of Directors for their leadership and counsel over the past year. Our Board recently saw the departure of two Directors - Mr. Joe Moeller and Mr. Douglas Beach. Both gentlemen have moved on to new senior management positions within Koch in the United States. Their contributions were highly instrumental to the Partnership's success in its first year. In their places I welcome Mr. Mark Wolff and Mr. Doug Wilkins to our Board, again members of the Koch senior management team. The Partnership looks forward to drawing on their industry knowledge and advice.

I would also like to thank the field employees and Calgary-based staff for their tireless dedication and support in making our first year of operations a success amidst a challenging industry environment. Your contributions have helped build a strong platform for future growth.

On behalf of Management and the Board of Directors

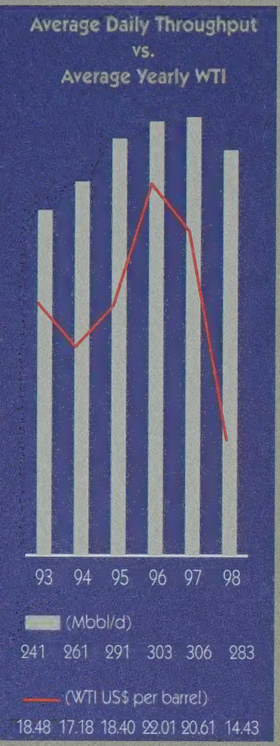
David Fesyk

David W. Fesyk

President and Chief Executive Officer

April 6, 1999

Crude Oil Market Overview



Excess supply resulted in a sharp decline in world oil prices during 1998. The WTI sweet crude benchmark averaged US$14.43 in 1998, representing a 30% drop from the previous year. In Western Canada, producers cut back on oil development and new drilling programs and, in some areas, uneconomic production was shut-in. Most regional crude oil pipelines, including the Partnership's assets, experienced declining volume receipts as a result of lower industry activity levels.

The prolonged low price environment in 1998 had several additional impacts worth noting.

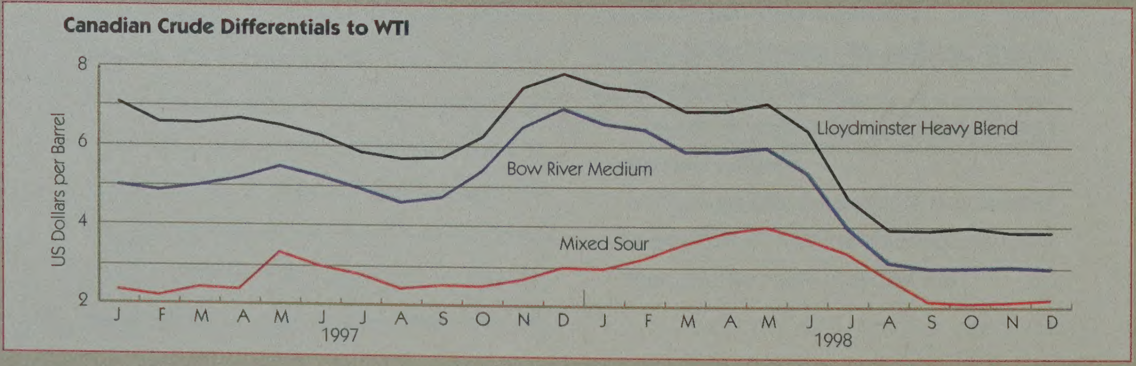
Production declines in Western Canada were most pronounced among heavy and high sulphur grades of crude oil. These grades have historically received a lower market price than light sweet oil because of higher refining costs and reduced yields of high-value refined products such as gasoline. The lower price basis for heavy and high sulphur crude types is often expressed as a price "differential" to sweet crude markers such as WTI.

Declines in Canadian heavy oil production caused refiners to compete more aggressively for available supply. This, in turn, resulted in a significant narrowing of light-to-heavy price differentials in the last half of 1998. Lower heavy oil production also resulted in lower demand and lower prices for condensate - a natural gas liquid that is blended with heavy oil to meet pipeline viscosity and density specifications. These market dynamics, coupled with a weak Canadian dollar, helped improve the wellhead netback prices realized by Canadian heavy oil producers.

Rapidly changing price relationships also caused producers to closely monitor and gain access to pipeline product streams that provided the highest possible wellhead netback price. For example, at times during 1998, some producers on the Koch Alberta Pipeline System could realize a higher netback price for their production by accessing the Bow River crude oil stream. This incentive was driven by the net effects of stream price basis, equalization adjustments (industry scales used to compensate producers of higher quality crude oil for the quality degradation experienced when their product is blended with lower quality crude oils), and the cost of trucking and/or pipeline transportation. These factors caused non-traditional movements, or volume migrations, between many pipeline carriers during 1998.

While industry activity levels remain a concern, the Partnership's operations are well positioned to withstand the challenges of the current market environment. Our strengths include:

- **contiguous pipeline service areas that allow for the capture of volumes migrating between pipeline streams in southern Alberta and Saskatchewan**
- **system-wide throughputs that include only 11% of transported product marketed as the heavy and high sulphur grades of crude oil that are most susceptible to shut-in**
- **the ability to adjust equalization scales and provide integrated trucking service packages to optimize revenue and mitigate the effects of volume migration between systems**
- **surplus mainline capacity available to transport incremental volume when industry activity recovers**

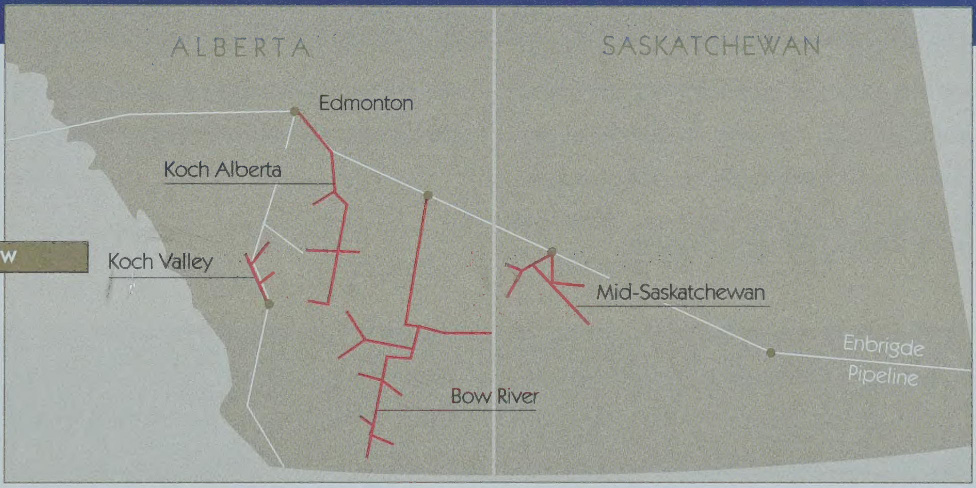


Feeder Pipeline Overview

Feeder pipeline systems such as the Partnership's assets gather crude oil directly from producer-owned production treating facilities (commonly known as batteries), truck terminals and other interconnecting gathering pipelines for delivery to regional refineries or to major export pipelines.

Average Daily Throughput by Pipeline System

Pipeline System	1998 Average Daily Throughput *(Mbbl/d)*	Percentage of 1998 Throughput *(%)*
Bow River Pipeline System	182.6	65
Koch Alberta Pipeline System	50.1	18
Mid-Saskatchewan Pipeline System	43.8	15
Koch Valley Pipeline System	6.4	2
1998 Total	282.9	100



operations review

Bow River Pipeline System

The Bow River Pipeline System was built in 1964. The system currently carries two streams of crude oil: a blend of heavy and medium crude oil ("Bow River 'A'"), and a light sour crude oil. All of the light sour crude oil and just over one half of the Bow River 'A' crude oil is transported north to the Gibson terminal at Hardisty, Alberta for delivery to either the Enbridge Pipeline ("EPL") or the Express Pipeline.

Almost one half of the Bow River 'A' crude oil receipts are transported south to the Murphy-owned export pipeline at Milk River, Alberta for delivery to refineries in the United States. The Bow River Pipeline System transported approximately 65% of the volumes shipped on the Partnership's pipelines in 1998.

During 1998, production declined in Bow River's service areas as a result of natural production declines, reduced maintenance of existing wells and a significant reduction in oil drilling and development programs.

In 1998, the Partnership completed a number of capital projects involving the Bow River Pipeline System. In total, $9.8 million were incurred in upgrading and expanding the pipeline system, of which $9 million were funded by Koch Canada.

Bow River Pipeline System

Type:
crude oil feeder pipeline and gathering system
Length:
1,625 miles (2,615 km)
Area:
southeastern Alberta
Delivery Point:
- EPL system and Express Pipeline at Hardisty, Alberta
- Murphy Pipeline at Milk River, Alberta

Capacity:
256.0 Mbbl/d
1998 Throughput:
182.6 Mbbl/d of Bow River 'A' and light sour crude

These projects included:

- a 20,600-barrel per day expansion of the northbound mainline capacity from Tilley to Hardisty. The project involved construction of approximately 35 miles (56 kilometers) of new pipeline

- an expansion of the Jenner gathering lateral, including pump modifications at the Princess station

- three new battery connections in the Jenner, Kessler and Suffield service areas

- shipping capacity upgrades to four Lease Automatic Custody Transfer ("LACT") facilities

Average Daily Throughput

(Mbbl/d)	**1998**	1997	1996	1995	1994
Bow River 'A' Crude Oil	**157.6**	165.2	166.0	157.4	132.1
Light Sour Crude Oil	**25.0**	27.4	31.8	34.2	37.5
Total	**182.6**	192.6	197.8	191.6	169.6

Koch Alberta Pipeline System

Type:
crude oil feeder pipeline and gathering system
Length:
377 miles (603 km)
Area:
south central Alberta
Delivery Point:
- EPL and Trans Mountain Pipeline systems at Edmonton, Alberta
- refinery at Edmonton, Alberta
- Amoco Rangeland Pipeline at Joffre, Alberta

Capacity:
73.9 Mbbl/d
1998 Throughput:
50.1 Mbbl/d of light crude

Koch Alberta Pipeline System

The Koch Alberta Pipeline System was constructed in the early 1950s to serve oilfields between Drumheller and Stettler, Alberta. The system transports light sour crude oil from south central Alberta north to a refinery in Edmonton and to the EPL and Trans Mountain Pipelines at Edmonton.

The system also delivers light sweet crude oil to the Amoco Rangeland Pipeline near Joffre, Alberta. The Koch Alberta Pipeline System transported approximately 18% of the volumes shipped on the Partnership's pipelines in 1998.

The Koch Alberta Pipeline System also experienced lower volumes due to natural production declines, reduced well maintenance and production migration to other systems.

Average Daily Throughput

(Mbbl/d)	**1998**	1997	1996	1995	1994
Light Sour Crude Oil	**47.2**	60.0	62.6	64.2	58.6
Light Sweet Crude Oil	**2.9**	3.5	4.1	1.8	2.7
Total	**50.1**	63.5	66.7	66.0	61.3

Mid-Saskatchewan Pipeline System

The Mid-Saskatchewan Pipeline System was constructed in the early 1950s to serve oilfields in the Coleville and Smiley areas of Saskatchewan. The system gathers and transports crude oil from fields near Kindersley and Kerrobert, Saskatchewan to EPL at Kerrobert. The Mid-Saskatchewan Pipeline System transported approximately 15% of the volumes shipped on the Partnership's pipelines in 1998.

The Mid-Saskatchewan Pipeline transports two segregated crude oil streams; a heavy blend and light sweet crude. Heavy oil receipts increased in 1998 due to several large drilling programs. Market factors such as narrowing light-to-heavy price differentials and lower diluent costs contributed to producer activity in the area.

Light sweet crude receipts remained relatively stable in 1998 despite low drilling levels.

Operations at the Kerrobert Terminal were enhanced in 1998 through completion of two capital projects. A new 80,000-barrel storage tank was constructed to provide storage during product transfer to the EPL export pipeline. New condensate trim blending facilities were also developed at the Kerrobert Terminal.

The Partnership is planning three battery connections for 1999, all of which will generate incremental gathering volumes and revenue while profitably growing the Partnership's pipeline asset base. These projects involve the construction of a total of 59 miles of blend and diluent pipelines and are designed to retain existing heavy volumes and attract new heavy volumes in the Hoosier, Buffalo Coulee and Coleville areas.

Mid-Saskatchewan Pipeline System

Type:
crude oil feeder pipeline and gathering system

Length:
324 miles (518 km)

Area:
west central Saskatchewan

Delivery Point:
- EPL System at Kerrobert, Saskatchewan

Capacity:
63.2 Mbbl/d

1998 Throughput:
43.8 Mbbl/d of heavy blend and sweet light crude

Average Daily Throughput

(Mbbl/d)	**1998**	1997	1996	1995	1994
Heavy Blend Crude Oil	**31.2**	29.7	18.8	13.4	9.8
Light Sweet Crude Oil	**12.6**	13.4	13.3	13.9	13.6
Total	**43.8**	43.1	32.1	27.3	23.4

into the future

Koch Valley Pipeline System

Type:
condensate feeder pipeline
Length:
151 miles (242 km)
Area:
southwestern Alberta
Delivery Point:
Federated Cremona Pipeline at Madden, Alberta
Capacity:
12.1 Mbbl/d
1998 Throughput:
6.4 Mbbl/d condensate

Koch Valley Pipeline System

The Koch Valley Pipeline System transports condensate from gas plants at Waterton, Jumping Pound and Wildcat Hills to the Federated Cremona Pipeline at Madden. The Koch Valley Pipeline System transported approximately 2% of the volumes shipped on the Partnership's pipelines in 1998.

The Partnership successfully renegotiated a term shipping agreement on the Koch Valley System in 1998. Effective in November, the new agreement includes a higher toll basis for transported volume as well as stronger shipping commitments. Also in November, production from the Moose Mountain area began shipping via one of the connected gas plants west of Calgary. An equipment upgrade project was completed on the Koch Valley Pipeline System to provide capacity needed to ship incremental volumes expected from this area.

Average Daily Throughput

(Mbbl/d)	**1998**	1997	1996	1995	1994
Condensate	**6.4**	7.2	6.4	6.1	6.7

Environmental, Health and Safety

The Partnership is dedicated to ensuring its operations are conducted in an environmentally safe manner. Responsibility resides with the entire operations team and contractors to ensure that operations are conducted in accordance with all current environmental and occupational health and safety laws and regulations.

The commitment to maintaining the safety and integrity of the pipeline systems is an on-going process.

During 1998, the Partnership continued its pipeline integrity program which involves the internal inspection of, and if required, repairs to the Partnership's pipeline assets. This program was underway at the time of the IPO and Koch Canada is funding up to $10 million of the Partnership's expenses; $1 million was incurred in 1998.

The Partnership has implemented a plan to ensure its tank assets comply with the Alberta Government regulatory G-55 Tank Compliance program by the specified deadline of October 31, 2001. Several tanks were inspected in 1998 with one tank being completely upgraded. Additional tanks will be inspected and upgraded in 1999 and subsequent years.

The Partnership also upgraded its pipeline data acquisition and supervisory control system on the Bow River Pipeline System. The new Vector SCADA System has improved the Partnership's ability to capture operating data from field locations, with planned future applications in the areas of volumetric line balancing, hydraulic optimization and historical data management.

The Partnership plans to install the Vector SCADA System on the Mid-Saskatchewan, Koch Alberta and Koch Valley Pipeline Systems in 1999.

unitholders' tax allocation

Record Date	Payment Date	Cash Distributions (per unit)	Allocation of Income for Tax Purposes (per unit)	Return of Capital (per unit)
December 31, 1997	January 30, 1998	$ 0.07	nil	$ 0.07
Total 1997:		$ 0.07	nil	$ 0.07
March 31, 1998	April 30, 1998	$ 0.22	$ 0.080	$ 0.140
June 30, 1998	July 30, 1998	$ 0.18	$ 0.065	$ 0.115
September 30, 1998	October 30, 1998	$ 0.19	$ 0.069	$ 0.121
December 31, 1998	January 30, 1999	$ 0.18	$ 0.065	$ 0.115
Total 1998:		$ 0.77	$ 0.279	$ 0.491
TOTAL:		**$ 0.84**	**$ 0.279**	**$0.561**

For 1998 operations, the Partnership declared and paid cash distributions totalling $0.77 per unit. The 1998 taxable income amounts to approximately 36.27% of the total cash distributions. The remaining 63.73% is considered a tax-deferred return of capital.

The following information is provided to assist Partnership unitholders in preparing their income tax returns; however, this information is of a general nature only and is not intended to be legal or tax advice to any particular unitholder. Unitholders are advised to seek professional advice.

Partnership Units held within an RRSP, RRIF or DPSP

No amounts are required to be reported for taxation purposes if the units are held within an RRSP (Registered Retirement Savings Plan), RRIF (Registered Retirement Income Fund), or DPSP (Deferred Profit Sharing Plan).

Partnership Units held outside an RRSP, RRIF or DPSP

Individual unitholders are taxable on their share of the Partnership's income for tax purposes. The amount of income allocated to a unitholder may be more or less than the amount of cash distributed to the unitholder during the year. For tax purposes, income allocated to a unitholder will increase the carrying value of the cost base of the unitholder's investment in the Partnership.

Adjusted Cost Base Of Partnership Units

The adjusted cost base is used in calculating the capital gain or loss on the eventual disposition of the Partnership units held as capital property by the unitholder. When an individual unitholder disposes of its investment in the Partnership, a capital gain or capital loss may arise. A capital gain or loss is determined by subtracting the adjusted cost base of the Partnership units from the proceeds (net of selling commissions) of disposition.

The adjusted cost base of the unitholder's investment in the Partnership should be equal to the original cost of the investment (including any broker fees incurred on acquisition) less the cumulative amount of all cash distributions received plus the taxable income allocated and reported by the unitholder in the current and prior tax returns.

Statement of Operations and Distributable Cash

Year ended December 31,1998 *($ thousands except per unit amounts)*	**1998 Actual**	1998 Forecast
Average daily volumes (Mbbl/d)	**283**	322
Revenue	**$ 81,628**	$ 94,459
Expenses		
Operating	**21,829**	22,114
General and administrative	**3,788**	4,745
Pipeline inspection expenditures	**994**	-
	26,611	26,859
Income before the following deductions (income)	**55,017**	67,600
Depreciation	**47,237**	50,930
Management fees	**1,138**	1,370
Other income	**(303)**	-
Net income	**6,945**	15,300
Add (deduct)		
Depreciation	**47,237**	50,930
Capital expenditures incurred	**(13,786)**	(14,791)
Capital and pipeline inspection expenditures prepaid by the Partnership	**13,316**	12,974
Bank loans related to capital expenditures	**1,000**	-
Proceeds on sale of capital assets	**189**	-
Gain on sale of capital assets	**(77)**	-
Reserve to be funded by future distributions	**1,540**	-
Distributable Cash	**$ 56,364**	$ 64,413
Per Class A and B unit amounts		
Net income	**$ 0.09**	$ 0.21
Distributable Cash	**$ 0.77**	$ 0.88

This report to unitholders for the year ended December 31, 1998 compares the results of operations with the forecast included in the IPO prospectus dated November 18, 1997.

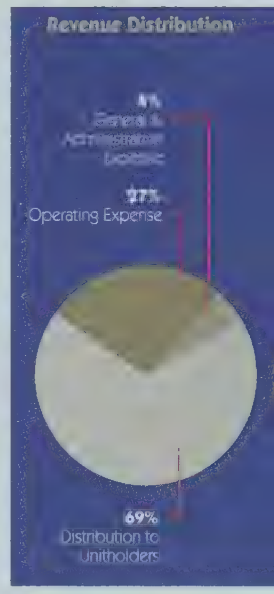
Distributable Cash

Distributable Cash amounted to $56.4 million or $0.77 per unit. This represents an $8 million shortfall to the prospectus forecast of $64.4 million and was primarily due to lower than expected throughput volumes. Lower throughput volumes were also the key factor impacting on net income which amounted to $6.9 million or $0.09 per unit compared to the prospectus forecast of $15.3 million or $0.21 per unit.

Only 36.3%, or $0.28 per unit, of the 1998 distributions is considered taxable for income tax purposes with the remaining 63.7%, or $0.49 per unit, considered a return of capital.

Revenue

The Partnership generated revenue of $81.6 million which was 14% below the prospectus forecast of $94.5 million. The shortfall in revenue was a result of the decline in throughput volumes on its two largest pipeline systems, Bow River and Koch Alberta. The lower volumes are attributed to reduced maintenance of existing wells and insufficient drilling activity to offset production declines and develop new production which the Partnership had expected.



Where prudent, management increased tolls over the course of the year to enhance revenue and profitability. The average toll per barrel increased from $0.77 in the first quarter to $0.81 by the fourth quarter. Factors which influenced the average toll per barrel include:

- **introduction of a mainline toll increase on the Bow River Pipeline System in connection with the Bow River northbound expansion commencing February 1998**
- **an increase in the proportion of total volumes on the Bow River Pipeline System moving southbound**
- **introduction of low volume toll surcharges on all systems beginning the fourth quarter of 1998**
- **commencement of the negotiated toll increase on the Koch Valley Pipeline System**

Expenses

Operating expenses of $21.8 million were 1.3% lower than the prospectus forecast. The Partnership's operating cost structure does consist of a relatively high fixed cost component. However, compared to the IPO prospectus forecast, the Partnership achieved a 35% reduction in its largest operating expense, power, due to a combination of lower volumes and the efficient use of pumping equipment.

Partially offsetting the savings in power costs were:

- **costs related to the Year 2000 Issue**
- **environmental costs which totalled approximately $1.4 million**

General and administrative expenses of $3.8 million were well under forecast of $4.7 million as costs were lower than expected.

The management fee of $1.1 million for administering the Partnership amounted to 2% of the Partnership's annual "Operating Cash" as defined in the Partnership Agreement.

Depreciation expense of $47.2 million, was $3.7 million lower than expected as a result of delays in completing the northbound mainline expansion.

Capital and Pipeline Inspection Expenditures

On November 27, 1997 certain capital improvements and a pipeline inspection and repair program were ongoing on the assets acquired from the General Partner. The estimated costs of these projects were $20 million and $10 million, respectively. To facilitate the sale of the pipeline assets, the Partnership paid $30 million to an affiliate of the General Partner to complete these projects on the Partnership's behalf. The capital improvements and inspection and repair costs will be capitalized and charged to expense, respectively, when the expenditures are made by the affiliate.

In 1998, capital expenditures totaled $13.8 million of which $12.3 million was funded by Koch Canada. Projects funded by Koch Canada included the Bow River Pipeline System northbound expansion and work on the Mid-Saskatchewan Pipeline System such as, shipping capacity expansions in the Marengo area, expansion of the Smiley boost station and the construction of an additional 80,000-barrel storage tank at the Kerrobert terminal.

Progress continues to be made on the pipeline inspection and repair program, of which $1 million was incurred in 1998.

Liquidity and Capital Resources

On November 27, 1998 the Partnership received the final $4 per unit instalment receipt totalling $150 million, which was due and payable from all its Class A unitholders. These proceeds were used to retire the $150 million Note Payable due to the General Partner.

A revolving credit facility of $50 million is in place to fund working capital and capital expenditure requirements. Modest borrowings of $1 million were made in 1998 to fund part of the capital expenditure program.

Outlook

We expect oil prices to be the overriding factor impacting on the Partnership's financial performance in the first half of 1999. Pending a sustained recovery in oil prices, we do not expect a significant increase in drilling activity, and therefore throughput volumes and revenues will remain susceptible to natural production declines. However, the recent increases in the WTI price may stimulate new drilling and/or well maintenance activity. The current environment is challenging, but we believe it may provide us with acquisition opportunities.

In 1999, the Partnership will continue to focus on cost reduction by implementing several initiatives. In particular, efforts will continue to focus on ways of minimizing the largest operating expense, power.

Business Risks

The Partnership's goal is to maintain stable distributions while pursuing growth opportunities that will enhance cash distributions to the unitholders. However, a number of inherent risks exist which may cause fluctuations in its distributions.

Future throughput and replacement of crude oil reserves will be dependent upon the success of producers operating in the service areas of the Partnership's pipelines and their ability to develop existing reserves and find and produce additional reserves through exploration and development activity. Without such developments, the volumes of crude oil transported through the pipelines will decline over time as reserves are depleted. Crude oil production is also a function of crude oil prices, and a sustained low price may result in additional production declines due to reduced well maintenance or even deliberate shut-ins.

The pipelines are subject to competition for volumes transported by truck to other pipelines near the areas serviced by the Partnership's pipelines. While competing pipelines could be constructed in areas served by the Partnership, we are not aware of any current plans to do so.

The Partnership's operations are subject to the customary hazards of the crude oil transportation business. Its operations could be interrupted by failures of pipelines, pumps, and equipment or natural disasters or other events beyond the Partnership's control.

Pipelines have historically had the best safety record in the North American hydrocarbon transportation industry. Compared to natural gas pipelines, crude oil pipelines have a lower risk of incidents such as fire or explosion. The principal risks associated with crude oil pipelines are the property damage and cleanup expenses from unintended discharges, or of increased obligations imposed by new or revised regulations. The Partnership undertakes a number of preventative initiatives to promote safe and efficient operations, and to mitigate the risk of loss from pipeline leaks and crude oil spills. Also, the Partnership carries insurance that provides coverage for sudden and accidental pollution under certain circumstances.

Year 2000 Compliance

Like other entities in the pipeline industry, the Partnership is vulnerable to the possible failure of computer and other information technology systems to properly process date and time information. This possible failure is due to the prior programming practice of using only two digits, rather than four, to represent the year in a date. As a result of this programming practice, it is anticipated that some computer and embedded processing systems may malfunction during certain dates, particularly during the transition from 1999 to 2000, which may impart operational and/or financial risk to the Partnership.

The day-to-day operations of the Partnership's business are dependent to some extent on computer equipment and embedded chips. The most significant risks to the Partnership relating to the year 2000 fall into three categories:

- **field operations, specifically process control**
- **financial and administrative computer systems**
- **reliance on third-party producers, shippers, utilities, telecommunication systems and financial institutions**

Furthermore, the Partnership relies on the General Partner and Koch to provide all of its operational and administrative services, either on a direct or indirect basis.

The Partnership has established a year 2000 compliance program and is working in conjunction with the General Partner and Koch to address the Year 2000 Issue. The Partnership's year 2000 program includes the following components:

- **inventorying hardware, software and embedded processing systems**
- **assigning priorities to identified systems**
- **assessing the year 2000 compliance of identified systems**
- **evaluating and testing material systems**
- **repairing or replacing material systems that are determined not to be year 2000 compliant**
- **designing and implementing contingency plans where necessary**

Material systems are those the Partnership believes may have environmental, health or safety risks or adversely affect the ability of the Partnership to generate, process, record, receive or collect revenues if not properly addressed.

The Partnership has implemented and/or completed the following portions of its year 2000 program:

- **an inventory of the Partnership's systems, equipment and process controls which may be affected by two-digit date and time data**
- **a compliance check on all such systems, equipment and process controls**
- **a risk assessment/mitigation plan for the various business and operational systems**
- **a review of the Partnership's core financial systems for year 2000 compliance, together with all necessary updates**
- **inquiries to the appropriate utilities, telecommunication providers, downstream connected facility owners, financial institutions, and primary producers and shippers; completed questionnaires are currently being received and reviewed**
- **testing of various computer software packages that handle the Partnership's nomination, scheduling, volume balancing and invoicing functions, with the necessary remediation to be completed by the end of the second quarter of 1999**
- **a Clean Management Policy to ensure that all new purchases are year 2000 compliant**

The Partnership anticipates that contingency plans will be developed which will allow for continuation of business in all but the worst case scenarios. These plans will address the strategies and resources necessary to restore operations in the unlikely event that an interruption does occur. Specifically, testing and contingency plans for the critical pipeline devices have been completed. Testing and contingency plans for all other material systems are expected to be completed by the end of the second quarter of 1999.

Management does not expect the costs associated with year 2000 readiness will have a material effect on the Partnership's operating results or financial position. In 1998, the Partnership spent $371,000 on the year 2000 assessment and implementation phases. For 1999, $730,000 has been budgeted to complete the equipment replacement, programming modifications, continuance of the Clean Management Policy, and all other issues included in the implementation phase. All costs are being expensed as they are incurred.

Due to the Partnership's reliance on product and utilities suppliers, connected facilities and financial partners, unanticipated problems may arise and the risks associated with the Year 2000 Issue could be substantial. Although the Partnership believes that its year 2000 program will minimize these risks, the Partnership is unable to ensure that the consequences of year 2000 failures of systems maintained by the Partnership or third parties will not materially and adversely affect the Partnership's operating results, liquidity or financial condition by impeding the Partnership's ability to receive and deliver crude oil and to invoice and collect revenues related thereto.

statement of governance practices

The following description of the governance practices of the Partnership and the General Partner is made with reference to the guidelines for effective corporate governance adopted by The Toronto Stock Exchange (the "TSE"). While the Partnership and the General Partner endorse the governance principles reflected in the TSE guidelines and consider good governance practices to be an important element in the effective and efficient operation of Canadian corporations, their respective approaches to governance are necessarily unique and do not strictly adhere to the TSE guidelines for a number of reasons, including the fact that the Partnership is a limited partnership and certain of its governance

aspects are determined by laws relating to limited partnerships (including those relating to the potential loss of limited liability if limited partners participate in the control of the business of the Partnership) and the terms of the Limited Partnership Agreement governing the Partnership.

The General Partner, an indirect wholly-owned subsidiary of Koch directs the operations of the Partnership and is responsible for managing the business and affairs of the Partnership. The Board of Directors of the General Partner consists of seven individuals, three of whom are appointed by, but independent of, Koch as required by the Limited Partnership Agreement. The other four directors are all employees of Koch or its affiliates.

The General Partner's Board of Directors ("the Board") is responsible for managing the business and affairs of the General Partner and the Partnership. The Board discharges its responsibility for the stewardship of the Partnership directly and through its committees. The Board supervises management which is responsible for the day-to-day conduct of the Partnership's business. Mr. Fesyk, as President and Chief Executive Officer, has primary responsibility for day-to-day management issues, subject always to Board approval for strategic plans and objectives. Mr. Fesyk also serves as Chairman of the Board. The Board believes that Mr. Fesyk's knowledge of and experience with the business and operations of the Partnership, together with his understanding of the operations of Koch and its affiliates (which provide services to the Partnership), make him uniquely suited to fulfill this role in the most efficient manner. The Board has direct access to management, has the ability to meet without management directors present and has the authority to seek advice from independent advisors, as necessary. The Board retains responsibility for significant changes in the Partnership's affairs, such as approval of major capital expenditures, financing arrangements, significant acquisitions and divestitures and those matters specifically set out in the Limited Partnership Agreement as requiring Board approval.

The composition of the Board of the General Partner is prescribed by the Limited Partnership Agreement, which provides that its Board shall be comprised of not more than seven directors, of which, not less than three shall be directors who are not officers, directors or employees of Koch or its affiliates ("Independent Directors") and that if Koch and its affiliates own, directly or indirectly, less than 30% of the issued and outstanding units of the Partnership, not less than four of its directors shall be Independent Directors. The Board of the General Partner has concluded that the three Independent Directors are unrelated directors within the meaning of the TSE guidelines.

There are two committees of the Board of the General Partner: the Audit Committee and the Environmental, Health and Safety Committee.

The Audit Committee, comprised of Messrs. Swinton and Miller, has responsibility for, among other things, overseeing the nature and scope of the annual audit and recommending for Board approval the audited financial statements and other mandatory disclosure releases containing financial information, including the quarterly financial statements, and evaluating the accounting and financial reporting policies and controls of the Partnership. The Environmental, Health and Safety Committee, comprised of Messrs. Wilkins, Miller and Brown, has responsibility for, among other things, monitoring and approving the Partnership's safety, environmental and emergency plans and procedures.

Matters such as Board orientation and education, compensation, evaluation and succession are the responsibility of the Board as a whole.

Management's Responsibility for Financial Statements

The accompanying financial statements of Koch Pipelines Canada, L.P. (the "Partnership") and all information in this Annual Report are the responsibility of the management of the General Partner, Koch Pipelines Canada Ltd., and have been approved by the Board of Directors of Koch Pipelines Canada Ltd., on behalf of the Partnership. The financial statements have been prepared by the General Partner in conjunction with Koch Industries, Inc. in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect the General Partner's best judgements. Financial information contained throughout this Annual Report is consistent with these financial statements.

The General Partner in conjunction with Koch Industries, Inc. has developed and maintains an extensive system of internal control that provides reasonable assurance that all Partnership transactions are accurately recorded, that the Partnership's financial statements realistically report the operating and financial results and that the Partnership's assets are safeguarded.

In accordance with the Partnership Agreement, Ernst & Young LLP, an independent firm of chartered accountants, was appointed by the General Partner to audit the Partnership's financial statements and provide an independent professional opinion.

Koch Pipelines Canada Ltd. *(General Partner)*,
on behalf of Koch Pipelines Canada, L.P.

David Fesyk

President and Chief Executive Officer
April 6, 1999

Auditors' Report

To the Partners of Koch Pipelines Canada, L.P.

We have audited the balance sheets of Koch Pipelines Canada, L.P. (the "Partnership") as at December 31, 1998 and 1997 and the statements of partners' equity, operations and distributable cash and cash flows for the year ended December 31, 1998 and for the period from formation of the Partnership on October 9, 1997 to December 31, 1997. These financial statements are the responsibility of the management of Koch Pipelines Canada Ltd. (the "General Partner") on behalf of the Partnership. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the year ended December 31, 1998 and for the period from formation of the Partnership on October 9, 1997 to December 31, 1997 in accordance with generally accepted accounting principles.

Calgary, Canada
March 5, 1999

Ernst + Young LLP
Chartered Accountants

balance sheets

As at December 31,
(thousands of dollars)

	1998	1997
Assets		
CURRENT		
Cash	**$ 8,632**	$ 1,085
Accounts receivable	**11,519**	16,486
Prepaid expenses	**148**	343
Instalment receipts due	**-**	150,000
	20,299	167,914
Deferred capital and pipeline inspection expenditures	**11,918**	25,234
Capital assets	**626,825**	660,388
	$ 659,042	$ 853,536
Liabilities And Partners' Equity		
CURRENT		
Distributable Cash payable	**$ 13,176**	$ 5,124
Accounts payable and accrued liabilities	**7,949**	12,076
Note payable	**-**	150,000
	21,125	167,200
Bank loans	**1,000**	-
PARTNERS' EQUITY		
Class A units	**326,290**	351,607
Class B units	**310,627**	334,729
	636,917	686,336
	$ 659,042	$ 853,536

See accompanying notes.

On behalf of the Board of Koch Pipelines Canada Ltd.,
as General Partner of the Partnership:

Director *Director*

statement of partners' equity

Year ended December 31, 1998

(comparative figures are for the period from formation to December 31, 1997)

(thousands of dollars)

	Limited Partner Class A units	General Partner Class B units	Total
Capital contributions	$ 353,313	$ 336,353	$ 689,666
Net income for the period	919	875	1,794
Distributions	(2,625)	(2,499)	(5,124)
Partners' equity, December 31, 1997	351,607	334,729	686,336
Net income for the year	3,558	3,387	6,945
Distributions	(28,875)	(27,489)	(56,364)
Partners' equity, December 31, 1998	**$ 326,290**	**$ 310,627**	**$ 636,917**

See accompanying notes.

statements of operations and distributable cash

Year ended December 31, 1998

(comparative figures are for the period from formation to December 31, 1997)

(thousands of dollars, except per unit amounts)

	1998	1997
Revenue	**$ 81,628**	$ 8,437
Expenses		
Operating	**21,829**	1,989
General and administrative	**3,788**	501
Pipeline inspection expenditures	**994**	-
	26,611	2,490
Income before the following deductions (income)	**55,017**	5,947
Depreciation	**47,237**	4,073
Management fees	**1,138**	120
Other income	**(303)**	(40)
Net income for the period	**$ 6,945**	$ 1,794
Add (deduct)		
Depreciation	**$ 47,237**	$ 4,073
Capital expenditures incurred	**(13,786)**	(4,795)
Capital and pipeline inspection expenditures prepaid by the Partnership	**13,316**	4,766
Bank loans related to capital expenditures	**1,000**	-
Proceeds on sale of capital assets	**189**	-
Gain on sale of capital assets	**(77)**	-
Reserve to be funded by (used for) future distributions	**1,540**	(714)
Distributable Cash for the period	**$ 56,364**	$ 5,124
Per Class A and B unit amounts		
Net income	**$ 0.09**	$ 0.02
Distributable Cash	**$ 0.77**	$ 0.07

See accompanying notes.

statements of cash flows

Year ended December 31, 1998

(comparative figures are for the period from formation to December 31, 1997)

(thousands of dollars)

	1998	1997
Operating activities		
Net income for the period	$ 6,945	$ 1,794
Depreciation	47,237	4,073
Reduction in deferred pipeline inspection expenditures	994	-
Gain on sale of capital assets	(77)	-
Cash flow from operations	55,099	5,867
Net change in non-cash working capital	1,035	371
Cash provided by operating activities	56,134	6,238
Investing activities		
Acquisition of pipeline assets	-	(689,666)
Additions to capital assets	(13,786)	(4,795)
Reduction in deferred capital expenditures	12,322	4,766
Proceeds on sale of capital assets	189	-
Cash used in investing activities	(1,275)	(689,695)
Financing activities		
Partners' capital contributions	-	689,666
Instalment receipts paid by (due from) unitholders	150,000	(150,000)
(Decrease) increase in note payable to General Partner	(150,000)	150,000
Partnership distributions	(56,364)	(5,124)
Increase in Distributable Cash payable	8,052	-
Increase in bank loans	1,000	-
Cash (used in) provided by financing activities	(47,312)	684,542
Increase in cash during the period	7,547	1,085
Cash position, beginning of period	1,085	-
Cash position, end of period	$ 8,632	$ 1,085

See accompanying notes.

notes to financial statements

December 31, 1998 and 1997
(tabular amounts in thousands of dollars, except per unit amounts)

1. Formation And Structure Of The Partnership

The Partnership was formed with nominal capital as a limited partnership, under the laws of Alberta pursuant to an agreement dated October 9, 1997 (the "Partnership Agreement"), made between Koch Pipelines Canada Ltd., (the "General Partner") and 687371 Alberta Ltd., as the original limited partner. On November 27, 1997 the Partnership acquired $689.6 million of net pipeline assets from the General Partner *(see note 3)* and sold 37,500,000 Class A units on an instalment basis to the public *(see notes 4 and 6)*.

The Partnership's business activities are related to the transportation, storage, marketing, and processing of hydrocarbons in Canada.

The Partnership is dependent on the General Partner for the administration and management of all matters relating to the operation of the Partnership.

Under the Partnership Agreement, the General Partner is entitled to recover all direct and indirect expenses, including general and administrative expenses, incurred on behalf of the Partnership. The General Partner also receives an annual base fee equal to 2% of the Partnership's annual "Operating Cash" as defined in the Partnership Agreement. In addition, the General Partner is entitled to earn an annual incentive fee of between 15% and 35% of the Partnership's annual Distributable Cash in excess of $1.01 per unit to $1.19 per unit respectively, an acquisition fee of 1.0% of the purchase price of any assets acquired by the Partnership (excluding the pipeline assets originally acquired), and a disposition fee of 0.5% of the sale price of any assets sold by the Partnership.

The Partnership will distribute, on a quarterly basis, Distributable Cash to holders of the Partnership units. Distributable Cash is defined in the Partnership Agreement and generally means net income of the Partnership, adjusted for non-cash items and further adjusted for certain reserves, and is intended to allow the Partnership to retain cash as required to meet its ongoing liquidity and capital requirements.

Under existing income tax legislation, the Partnership is not subject to income taxes; however, the limited and general partners of the Partnership are subject to tax on their proportionate interest in the income earned by the Partnership for tax purposes.

2. Summary Of Significant Accounting Policies

CAPITAL ASSETS

Expenditures for system expansion and major renewals and betterments are capitalized; maintenance and repair costs are expensed as incurred. Depreciation of pipeline facilities and equipment commences when the pipelines are placed in commercial operation and is provided on a declining balance basis over their estimated service lives which range from 15 to 25 years. The service life for pipeline systems is determined with reference, together with other factors, to the estimated remaining life of the crude oil reserves expected to be gathered on the particular pipeline systems.

FUTURE SITE RESTORATION AND ABANDONMENT COSTS

Pipeline operations will be charged with any costs associated with the future site restoration and abandonment of the pipeline assets. The potential costs of abandonment will be a function of a number of factors, including regulatory requirements at the time of abandonment, the size of the pipeline and the pipeline's location. Abandonment requirements can vary considerably, ranging from emptying the pipeline to removal of the pipeline and reclamation of the right-of-way. It is expected that portions of the pipeline assets will be abandoned over time, and the costs of smaller abandonments, not expected to be material in any particular year, will be charged to operating expense in the year of abandonment. At such time as the timing and cost of abandoning substantial portions of the pipeline assets can reasonably be determined, estimated costs will be provided over the remaining life of the pipeline assets. To date, no provision for such future costs has been recorded.

MEASUREMENT UNCERTAINTY

The amounts recorded for depreciation of capital assets and the projections of future site restoration costs are based on estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be significant.

FINANCIAL INSTRUMENTS

Financial instruments of the Partnership consist of cash, accounts receivable, Distributable Cash payable, accounts payable and accrued liabilities, and bank loans. There are no significant differences between the carrying amounts of these financial instruments reported on the balance sheet and their estimated fair values.

3. Acquisition Of Pipeline Assets

On November 27, 1997, the Partnership acquired certain pipeline assets previously owned by the General Partner and its affiliates. The pipeline assets consist of the Bow River Pipeline System, the Koch Alberta Pipeline System, the Koch Valley Pipeline System and the Mid-Saskatchewan Pipeline System.

The acquisition was accounted for as a purchase and the purchase price was allocated according to the estimated fair values of the assets acquired as follows:

Capital assets	$ 659,666
Deferred capital and pipeline inspection expenditures (a)	30,000
	$ 689,666

Consideration paid for the assets consisted of:

35,700,000 General Partner Class B units issued	$ 336,353
Cash	203,313
Note payable to the General Partner	150,000
	$ 689,666

(a) On November 27, 1997 certain capital improvements and a pipeline inspection and repair program were ongoing on the assets acquired from the General Partner. The estimated costs of these two projects were $20 million and $10 million, respectively. To facilitate the sale of the pipeline assets, the Partnership paid $30 million to an affiliate of the General Partner to complete these projects on the Partnership's behalf. The capital improvements and inspection and repair costs will be capitalized and charged to expense, respectively, when the expenditures are made by the affiliate. During the year ended December 31, 1998, $13.32 million (1997 - $4.76 million) of these amounts were expended.

4. Instalment Receipts Due And Note Payable

The total subscription price for the Class A units of $375 million (before costs) was payable on an instalment basis. In 1997, the Partnership received $225 million, being the initial instalment of $6.00 per Class A unit for the 37,500,000 Class A units issued. The final instalment receipts due of $4.00 per Class A unit totalling $150 million was received by the Partnership on November 27, 1998 and was subsequently paid to the General Partner in full payment of the note payable.

5. Bank Loans

The Partnership has a $50 million unsecured demand operating credit facility with a Canadian chartered bank. Advances under the facility can take the form of prime based loans, Libor loans, bankers' acceptances or letters of credit, at the Partnership's option, and will bear interest at market rates. The effective interest rate on the amount outstanding at December 31, 1998 was 6.75%.

While the credit facility is demand in nature, the Partnership's lender has stated that it is not its current intention to call for repayment before December 31, 1999 provided there is no adverse change in the financial position of the Partnership. Accordingly, the bank loan is classified as long-term.

6. Partners' Capital

AUTHORIZED

Unlimited number of Limited Partner Class A units

Unlimited number of General Partner Class B units

(a) **Limited Partner Class A units outstanding**	#	
Balance, October 9, 1997	1	$ 1
Issued for cash and instalment receipts	37,500,000	353,313
Cancellation of founding limited partner's unit	(1)	(1)
Balance, December 31, 1997 and 1998	37,500,000	$ 353,313

(b) **General Partner Class B units outstanding**	#	
Balance, October 9, 1997	-	$ -
Issued to acquire pipeline assets	35,700,000	336,353
Balance, December 31, 1997 and 1998	35,700,000	$ 336,353

(c) **Net income and Distributable Cash**

Class A and Class B units share equally on a pro rata basis in the allocation of net income and Distributable Cash. The amount reported for net income and Distributable Cash per Class A and Class B unit is based on the pro rata share and the weighted average number of Class A and Class B units outstanding for the year (1997 - for the period from issuance to December 31, 1997).

7. Related Party Transactions

Revenue includes $6.5 million (1997 - $0.8 million) earned from affiliates of the General Partner in the normal course of operations. These amounts are recorded at their exchange amounts.

Operating and general and administrative expenses include direct costs incurred by affiliates of the General Partner on the Partnership's behalf and an allocation of operating and general and administrative expenses from those affiliates based primarily on time spent on the activities associated with Partnership operations. Such amounts are incurred in the normal course of operations and are recorded at an estimate of the cost for such expenses.

Amounts due to the General Partner and its affiliates are non-interest bearing and have no fixed repayment terms. At December 31, 1998, balances payable between the Partnership and affiliates of the General Partner include $3.0 million (1997 - $1.5 million) in accounts receivable and $2.8 million (1997 - $2.5 million) in accounts payable and accrued liabilities.

8. Year 2000 Uncertainty

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

Directors

David W. Fesyk - *Chairman of the Board, President and Chief Executive Officer*

Mr. Fesyk joined Koch in 1991 and has held several senior positions with Koch's Canadian crude oil marketing, transportation and commercial development operations. Most recently, he held the positions of General Manager, Business Development and Vice President, Transportation of Koch Oil Co. Ltd. Prior to joining Koch, Mr. Fesyk gained experience in both the upstream and downstream sectors of the oil and gas industry through employment with Esso Petroleum Canada Ltd. and geological consulting firms. Mr. Fesyk graduated from Arizona State University in 1984 with a Bachelor of Science degree in Earth Science. He also earned a Master of Business Administration degree from the University of Calgary in 1993.

Randolph C. Aldridge - *Director*

Mr. Aldridge is President of Koch Canada Ltd. Mr. Aldridge has over 25 years of engineering, marketing and management experience, including eight years as President of Koch Oil Co. Ltd. in Calgary, Alberta and three years as President of Koch Oil Company in Wichita, Kansas. In April 1998, Mr. Aldridge returned to Calgary as President, Koch Canada Ltd. Mr. Aldridge attended Texas A&M University where he received a Bachelor of Science degree in Chemical Engineering. He went on to earn a Master's degree in Management Science from the University of Texas at Dallas.

Derek Brown - *Director*

Mr. Brown has been an Adjunct Professor of Finance in the Joseph L. Rotman School of Management and a Special Lecturer at the University of Toronto since October 31, 1996. Prior to that, Mr. Brown was Vice President and Director of RBC Dominion Securities Inc., an investment dealer.

Keith F. Miller - *Director*

Mr. Miller is a Partner with the Calgary law firm Burnet, Duckworth & Palmer ("BD&P"). He was admitted to the Alberta Bar in 1979 and since 1980, he has practised regulatory law, principally before the National Energy Board and the Alberta Energy and Utilities Board. Mr. Miller is the Business Unit Leader for BD&P's Energy Group.

R. T. (Tim) Swinton - *Director*

Mr. Swinton has been President and Director of Western Provinces Resources Ltd. since June 1997. From January 1997 to May 1997 when the company was acquired, Mr. Swinton was Chairman and Chief Executive Officer of Kenting Energy Services Inc., an oilfield services company. Prior to January 1997, Mr. Swinton was Chairman and Chief Executive Officer of Enserv Corporation, a diversified oilfield services company.

Douglas Wilkins - *Director*

Mr. Wilkins is the General Manager of Crude Oil Supply and Trading with Koch Oil Co. Ltd. and joined Koch in 1995. Prior to joining Koch, Mr. Wilkins gained experience in products and crude oil trading and marketing management with Shell Canada for nine years. Mr. Wilkins attended the University of Calgary and graduated in 1985 with a Bachelor of Commerce degree.

Mark Wolff - *Director*

Mr. Wolff is the Executive Vice President of Koch Petroleum Group, L.P. - Northern Tier, with responsibility for the Koch Petroleum Group, L.P.'s refining, transportation and exploration and production business segments in Canada and the Northern United States.

Mr. Wolff joined Koch Industries, Inc. in 1981 and has a diversified energy background having served as President of Koch Carbon Inc., Koch's coal and petroleum coke marketing group, Director of Koch Industries International, Europe Region, where he was responsible for business development, and President of Koch Energy, Inc. Koch's gas and power business in Houston, Texas.

Board of Directors

David W. Fesyk
Chairman, President and Chief Executive Officer
Koch Pipelines Canada Ltd.

Randolph C. Aldridge
President
Koch Canada Ltd.

Derek Brown[2]
Adjunct Professor of Finance
University of Toronto

Keith F. Miller[1&2]
Partner
Burnet, Duckworth & Palmer

R.T. (Tim) Swinton[1]
President
Western Provinces Resources Ltd.

Douglas Wilkins[2]
General Manager, Crude Oil Supply and Trading
Koch Oil Co. Ltd.

Mark Wolff
Executive Vice President
Koch Petroleum Group - Northern Tier
Koch Industries, Inc.

[1] *member of the Audit Committee*
[2] *member of the Environmental Health and Safety Committee*

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Calgary, Alberta

Auditors
Ernst & Young LLP
Calgary, Alberta

Registrar and Transfer Agent
The Trust Company of Bank of Montreal
Montreal, Quebec

Legal Counsel
Burnet, Duckworth & Palmer
Calgary, Alberta

Stock Exchange Listing
The Toronto Stock Exchange
37,500,000 Limited Partner Class A units
trading under the symbol **KPC.UN**

Investor Relations Contact
Mark Ward
Manager, Investor Relations
Telephone: (403) 716-7606
Facsimile: (403) 716-7440
Email: ward3m@kochind.com

Officers - Koch Pipelines Canada Ltd.

David W. Fesyk
President and Chief Executive Officer

Frank Janzen, P.Eng.
Vice President, Operations

Scott Gerla
Vice President, Finance
(appointment effective April 5,1999)

Nancy Aiken
Corporate Secretary

managing solid assets for the present and into the future

managing solid assets for the present and into the future

KOCH PIPELINES CANADA, L.P.
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